

REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON GAMAGARA LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Gamagara Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2013 (Act No. 2 of 2013) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Property, plant and equipment

6. The municipality did not disclose property, plant and equipment in accordance with the SA Standards of GRAP 17, *Property, plant and equipment*. Property, plant and equipment stated at R883 665 970 (2013: R836 893 575) in note 9 to the financial statements was misstated due to the following matters:
 - The municipality did not review the residual values and useful lives of property, plant and equipment relating to land and buildings, community assets and other assets at

each reporting date. I have not determined the correct net carrying amount of these assets as it was impracticable to do so.

- The municipality did not capitalise all items of property, plant and equipment; consequently, land and buildings, infrastructure assets and other assets were understated. I have not determined the correct net carrying amount of these assets as it was impracticable to do so. Additionally, there was a resultant impact on the surplus for the period and the accumulated surplus.
 - Property, plant and equipment were overstated by R1 356 120 (2013: R170 856) as buildings were disclosed that did not belong to the municipality.
 - Property, plant and equipment was overstated by R437 581 as land was disclosed that did not belong to the municipality.
7. I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment relating to infrastructure as well as land and buildings, as the municipality did not have adequate systems in place to maintain records of property, plant and equipment. I was unable to confirm these items by alternative means. Consequently, I was unable to determine whether any adjustments to these assets stated at R788 135 673 in the financial statements were necessary.
8. In addition, I was unable to obtain sufficient appropriate audit evidence for journals processed in the previous year against property, plant and equipment. I was unable to confirm these transactions by alternative means. Consequently, I was unable to determine whether any adjustments to the comparative amount for property, plant and equipment stated at R836 893 575 were necessary.

Commitments

9. I was unable to obtain sufficient appropriate evidence for commitments as the municipality did not have adequate systems in place to maintain records of commitments. I was unable to confirm the commitments by alternative means. Consequently, I was unable to determine whether any adjustments to commitments stated at R41 646 679 (2013: R81 845 975) in note 49 to the financial statements were necessary.

Qualified opinion

10. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Gamagara Local Municipality as at 30 June 2014 and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

11. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

12. As disclosed in note 44 to the financial statements, the corresponding figures for 30 June 2013 have been restated as a result of an error discovered during 2014 in the financial statements of the municipality at, and for the year ended, 30 June 2013.

Material impairments

13. As disclosed in note 4 to the financial statements, a significant impairment of receivables from exchange transactions of R24 609 226 (52%) were incurred as a result

of poor collection practices.

Additional matters

14. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary information

15. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

Supplementary explanations of budget variances presented outside the financial statements

16. The supplementary explanations of budget variances contained in the statement of comparison of budget and actual do not form part of the financial statements. I have not audited these explanations and, accordingly, I do not express an opinion thereon.

Unaudited disclosure notes

17. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

18. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

19. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of the municipality for the year ended 30 June 2014:
- Objective: To fast track the process of reaching the national targets related to water and sanitation – pages x to x
 - Objective: To provide safe and environmental friendly waste water management – pages x to x
 - Objective: To provide free basic services to indigents – pages x to x
 - Objective: To ensure the development of quality housing delivery and eradicating housing backlog to maximum by ensuring sustainable housing settlements – pages x to x
 - Objective: To ensure building of proper houses through national and provincial housing scheme – pages x to x

- Objective: To ensure provision of housing for relocation to Dingleton – pages x to x
20. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
 21. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (National Treasury's FMPPi).
 22. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
 23. The material findings in respect of the selected objectives are as follows:

Objective: To fast track the process of reaching the national targets related to water and sanitation

Usefulness of reported performance information

24. The Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires that the integrated development plan should form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 100% of the reported objectives, indicators and targets were not consistent with those in the approved integrated development plan. This was due to a lack of an approved framework or properly documented processes and procedures that address the effective and efficient functioning of the performance management system.
25. The National Treasury's FMPPi requires the following:
 - Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. A total of 100% of the indicators were not well defined.
 - Performance targets must be measurable. I could not measure the required performance for 100% of the targets.
 - The period or deadline for delivery of targets must be specified. A total of 100% of the targets were not time bound.
 - Performance indicator must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator. A total of 100% of the indicators were not verifiable.
 - Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 100% of the targets were not specific.

This was because management did not adhere to the requirements of the National Treasury's FMPPi due to a lack of proper systems and processes as well as technical indicator descriptions.

Reliability of reported performance information

26. The National Treasury's FMPPI requires that auditees should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Adequate and reliable supporting evidence could not be provided for 100% of the targets to assess the reliability of the reported performance information. The municipality's records did not permit the application of alternative audit procedures. This was due to limitations placed on the scope of my work by the absence of effective performance information systems.

Objective: To provide safe and environmental friendly waste water management**Usefulness of reported performance information**

27. The MSA section 41 (c) requires that the integrated development plan should form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 100% of the reported objectives and indicators and 50% of the targets were not consistent with those in the approved integrated development plan. This was due to a lack of an approved framework or properly documented processes and procedures that address the effective and efficient functioning of the performance management system.

28. The National Treasury's FMPPI requires the following:

- Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. A total of 100% of the indicators were not well defined.
- Performance targets must be measurable. I could not measure the required performance for 50% of the targets.
- The period or deadline for delivery of targets must be specified. A total of 100% of the targets were not time bound.
- Performance indicator must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator. A total of 100% of the indicators were not verifiable.
- Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 50% of the targets were not specific.

This was because management did not adhere to the requirements of the National Treasury's FMPPI due to a lack of proper systems and processes as well as technical indicator descriptions.

Reliability of reported performance information

29. The National Treasury's FMPPI requires that auditees should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Adequate and reliable supporting evidence could not be provided for 100% of the targets to assess the reliability of the reported performance information. The municipality's records did not permit the application of alternative audit procedures. This was due to limitations placed on the scope of my work by the absence of effective performance information systems.

Objective: To provide free basic services to indigents

Usefulness of reported performance information

30. The MSA section 41 (c) requires that the integrated development plan should form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 100% of the reported objectives and indicators and 75% of the targets were not consistent with those in the approved integrated development plan. This was due to a lack of an approved framework or properly documented processes and procedures that address the effective and efficient functioning of the performance management system.

31. The National Treasury's FMPPi requires the following:

- Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. A total of 50% of the indicators were not well defined.
- Performance targets must be measurable. I could not measure the required performance for 50% of the targets.
- The period or deadline for delivery of targets must be specified. A total of 75% of the targets were not time bound.
- Performance indicator must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator. A total of 100% of the indicators were not verifiable.
- Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 50% of the targets were not specific.

This was because management did not adhere to the requirements of the National Treasury's FMPPi due to a lack of proper systems and processes as well as technical indicator descriptions.

Reliability of reported performance information

32. The National Treasury's FMPPi requires that auditees should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Adequate and reliable supporting evidence could not be provided for 100% of the targets to assess the reliability of the reported performance information. The municipality's records did not permit the application of alternative audit procedures. This was due to limitations placed on the scope of my work by the absence of effective performance information systems.

Objective: To ensure the development of quality housing delivery and eradicating housing backlog to maximum by ensuring sustainable housing settlements

Usefulness of reported performance information

33. The MSA section 41 (c) requires that the integrated development plan should form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 100% of the reported objectives, indicators and targets were not consistent with those in the approved integrated development plan. This was due to a lack of an approved framework or properly documented processes and procedures that address the effective and efficient

functioning of the performance management system.

34. The National Treasury's FMPPi requires the following:

- Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. A total of 100% of the indicators were not well defined.
- Performance targets must be measurable. I could not measure the required performance for 100% of the targets.
- The period or deadline for delivery of targets must be specified. A total of 100% of the targets were not time bound.
- Performance indicator must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator. A total of 100% of the indicators were not verifiable.
- Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 100% of the targets were not specific.

This was because management did not adhere to the requirements of the National Treasury's FMPPi due to a lack of proper systems and processes as well as technical indicator descriptions.

Reliability of reported performance information

35. The National Treasury's FMPPi requires that auditees should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Adequate and reliable corroborating evidence could not be provided for 100% of the targets to assess the reliability of the reported performance information. The municipality's records did not permit the application of alternative audit procedures. This was due to limitations placed on the scope of my work by the absence of effective performance information systems.

Objective: To ensure building of proper houses through national and provincial housing scheme

Usefulness of reported performance information

36. The MSA section 41 (c) requires that the integrated development plan should form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 100% of the reported objectives, indicators and targets were not consistent with those in the approved integrated development plan. This was due to a lack of an approved framework or properly documented processes and procedures that address the effective and efficient functioning of the performance management system.

37. The National Treasury's FMPPi requires the following:

- Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. A total of 100% of the indicators were not well defined.
- Performance targets must be measurable. I could not measure the required

performance for 100% of the targets.

- The period or deadline for delivery of targets must be specified. A total of 100% of the targets were not time bound.
- Performance indicator must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator. A total of 100% of the indicators were not verifiable.
- Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 100% of the targets were not specific.

This was because management did not adhere to the requirements of the National Treasury's FMPPPI due to a lack of proper systems and processes as well as technical indicator descriptions.

Reliability of reported performance information

38. The National Treasury's FMPPPI requires that auditees should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Adequate and reliable supporting evidence could not be provided for 100% of the targets to assess the reliability of the reported performance information. The municipality's records did not permit the application of alternative audit procedures. This was due to limitations placed on the scope of my work by the absence of effective performance information systems.

Objective: To ensure provision of housing for relocation to Dingleton

Usefulness of reported performance information

39. The MSA section 41 (c) requires that the integrated development plan should form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 100% of the reported objectives, indicators and targets were not consistent with those in the approved integrated development plan. This was due to a lack of an approved framework or properly documented processes and procedures that address the effective and efficient functioning of the performance management system.

40. The National Treasury's FMPPPI requires the following:

- Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. A total of 100% of the indicators were not well defined.
- Performance targets must be measurable. I could not measure the required performance for 100% of the targets.
- The period or deadline for delivery of targets must be specified. A total of 100% of the targets were not time bound.
- Performance indicator must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator. A total of 100% of the indicators were not verifiable.
- Performance targets must be specific in clearly identifying the nature and required

level of performance. A total of 100% of the targets were not specific.

This was because management did not adhere to the requirements of the National Treasury's FMPPI due to a lack of proper systems and processes as well as technical indicator descriptions.

Reliability of reported performance information

41. The National Treasury's FMPPI requires that auditees should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Adequate and reliable corroborating evidence could not be provided for 100% of the targets to assess the reliability of the reported performance information. The municipality's records did not permit the application of alternative audit procedures. This was due to limitations placed on the scope of my work by the absence of effective performance information systems.

Additional matters

42. I draw attention to the following matters:

Achievement of planned targets

43. Refer to the annual performance report on pages x to x; x to x for information on the achievement of planned targets for the year. This information should be considered in the context of material findings expressed on usefulness and reliability of the reported performance information in paragraphs 23 to 40 of this report.

Unaudited supplementary schedules and information

44. The supplementary information set out on pages x to x does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not express a conclusion thereon.

Compliance with legislation

45. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA are as follows:

Strategic planning and performance management

46. The performance management system did not clarify the roles and responsibilities of each role player and did not determine the frequency of reporting as well as the lines of accountability, as required by regulation 7(2)(c) and (e) of the *Municipal planning and performance management regulations*.
47. The performance management system did not provide for steps of improvement where performance targets were not met, as required by section 41(1)(d) of the MSA.
48. Key performance indicators, including input, output and outcome indicators, in respect of each of the development priorities and objectives were not set out in the integrated development plan, as required by section 41(1)(a) of the MSA and regulation 1 and 9(1)(a) of the *Municipal planning and performance management regulations*.
49. The annual performance report for the year under review did not include a comparison of the performance with set targets and a comparison with the previous financial year as well as measures taken to improve performance, as required by section 46(1)(b) and (c)

of the MSA.

50. The performance management system and related controls were not maintained and were inadequate, as they did not describe and represent the processes of performance monitoring, measurement, review, reporting, improvement and how it is conducted, organised and managed; and did not include the roles of the different role players, as required by sections 38 of the MSA and regulation 7 of the *Municipal planning and performance management regulations*.
51. Sufficient appropriate audit evidence could not be obtained to confirm whether the local community was afforded at least 21 days to comment on the final draft of the integrated development plan before it was adopted by the council, as required by section 42 of the MSA and regulations 9, 13(1), 13(4)(c) and 15(3) of the *Municipal planning and performance management regulations*.

Budgets

52. Expenditure was not incurred in accordance with the approved budget, in contravention of section 15 of the MFMA.

Annual financial statements, performance and annual reports

53. The financial statements submitted for auditing were not prepared, in all material respects, in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.
54. Oversight report, containing comments on the annual report, was not adopted by the council within two months from the date on which the 2012-13 annual report was tabled, as required by section 129(1) of the MFMA.

Audit committee

55. The audit committee did not meet at least four times a year, as required by section 166(4)(b) of the MFMA.

Procurement and contract management

56. Sufficient appropriate audit evidence could not be obtained that all quotations were awarded in accordance with the legislative requirements and a procurement process which is fair, equitable, transparent and competitive, as no sufficient supply chain management process documentation was obtained for the selected batch payments.
57. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, as required by supply chain management (SCM) regulation 17(a) and (c).
58. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).
59. Sufficient appropriate audit evidence could not be obtained that bid specifications were drafted by bid specification committees which were composed of one or more officials of the municipality, as required by SCM regulation 27(3).
60. Sufficient appropriate audit evidence could not be obtained if any awards were made to providers who are in the service of the municipality, in contravention of section 112(j) of the MFMA and supply chain management regulation 44.

61. Sufficient appropriate audit evidence could not be obtained that any persons in the service of the municipality who had a private or business interest in contracts awarded by the municipality disclosed such interest, as required by SCM regulation 46(2)(e).
62. Sufficient appropriate audit evidence could not be obtained that any persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality disclosed such interest, as required by SCM regulation 46(2)(e).
63. Sufficient appropriate audit evidence could not be obtained that any supply chain management officials or role players who or whose close family members, partners, associates had a private or business interest in contracts awarded by the municipality participated in the process relating to that contract, in contravention of SCM regulation 46(2)(f).

Human resource management and compensation

64. Sufficient appropriate audit evidence could not be obtained that the senior manager dismissed for financial misconduct in a previous position and re-appointed before the expiry of 10 years, in contravention of section 57A of the MFMA.
65. The municipality did not develop and adopt appropriate systems (policies) and procedures to monitor, measure and evaluate performance of staff, in contravention of section 67(d) of the MSA.

Expenditure management

66. Reasonable steps were not taken to prevent unauthorised, irregular as well as fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Asset management

67. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.

Consequence management

68. Sufficient appropriate audit evidence could not be obtained that unauthorised, irregular as well as fruitless and wasteful expenditure incurred by the municipality was investigated to determine if any person was liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.
69. Sufficient appropriate audit evidence could not be obtained that council certified unauthorized, irregular as well as fruitless and wasteful expenditure as irrecoverable by having conducted an investigation to determine the recoverability of the expenditure, in contravention of section 32(2)(a)(ii) of the MFMA.
70. Sufficient appropriate audit evidence could not be obtained that the accounting officer and council reported to the South African Police Service cases of alleged irregular expenditure that constituted a criminal offence, as required by section 32(6) and 32(7) of the MFMA.

Internal control

71. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

72. The accounting officer did not evaluate whether management had implemented effective internal controls by gaining an understanding of how senior management had met its responsibilities. The accounting officer did not hold senior management accountable for undesirable outcomes.
73. The municipality did not ensure that the asset register agreed to the amount of property, plant and equipment disclosed in the financial statements. The management did not ensure that the asset register prepared by consultants was reviewed regularly and timeously to ensure that it was complete and accurate. The municipality's technical unit was not involved in the compilation and review of the asset register, resulting in the omissions that could have been avoided.
74. The leadership did not ensure adherence to the supply chain management policy at the municipality, which resulted in processes not preventing irregular expenditure and material non-compliance. The municipality's compliance office did not monitor compliance with SCM regulations in ensuring that findings on financial statement do not re-occur.
75. The municipality did not implement effective human resource management to ensure that adequate and sufficiently skilled resources were in place and that performance was monitored, which resulted in processes not preventing numerous salary misstatements paid and recorded on the financial statements.
76. The accounting officer did not develop and monitor the implementation of action plans to address internal control deficiencies prevailing in the supply chain management, financial management and performance management.

Financial and performance management

77. Management did not perform a proper review on the financial statements compiled by external service providers, which resulted in material amendments to the financial statements.
78. The systems underlying the procurement processes at the municipality were inadequate to prevent irregular expenditure on contracts entered into, resulting in irregular expenditure that was disclosed in the accounting records of the municipality. Effective and appropriate disciplinary steps were not taken against officials who made and permitted unauthorised, irregular as well as fruitless and wasteful expenditure. In addition proper record keeping was not in place as not all requested information relating to SCM was submitted.
79. The municipality's action plans to resolve external audit findings did not include plans to rectify and ensure compliance with all laws and regulations. There was no segregation of duties, as the deputy chief financial officer was responsible for the majority of functions involving financial management and its related compliance. This results in internal control deficiencies which will not be corrected unless duties are adequately delegated between all municipal employees.
80. The underlying systems and controls were inadequate to provide reliable and accurate evidence to support the reporting on predetermined objectives. Senior management did not perform an adequate review on the actual performance against predetermined objectives reported. Therefore, the integrated development plan, service delivery and budget implementation plan and the annual performance report were inconsistent.
81. The municipality did not have an adequate performance management system for the planning, collection, collation, monitoring, reviewing and reporting of performance information. The municipality did not have specific business processes which details how its performance management system works from setting of objectives, indicators and targets through to reporting on objectives, indicators and targets. There was no

effective communication between the strategic management unit, which was responsible for reporting on performance information, and other units that were responsible for achieving set indicators and targets. This also resulted in inconsistent and unreliable reported performance information. The strategic management unit relied on information uploaded on the performance management system by employees within other units and did not verify such information with supporting documentation. Employees were also not held accountable for performance information that was not uploaded on the performance management system.

82. The municipality does not have documented policies and procedures to guide the operations of the municipality, resulting in numerous instances of non-compliance with the MFMA.

Governance

83. The municipality conducted a risk assessment as required by the MFMA. However no review or monitoring of the risks identified took place.
84. The municipality used the shared internal audit division within John Taolo Gaetsewe District Municipality. Performance information was not audited by the shared internal audit during the 2012-13 and 2013-14 financial years, as the municipality did not submit the performance report to the internal audit.
85. The municipality used the shared audit committee within John Taolo Gaetsewe District Municipality. The audit committee did not review the performance report prior to submission to the external auditors, as the municipality did not submit the performance report to internal audit. The financial statements were reviewed however no feedback was provided to the municipality.

Auditor general

Kimberley

30 November 2014



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence